

**CITY OF MELVERN
OSAGE COUNTY, KANSAS**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

For the Year Ended December 31, 2011

**ALDRICH AND COMPANY LLC
CERTIFIED PUBLIC ACCOUNTANTS**

CITY OF MELVERN
OSAGE COUNTY, KANSAS

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2011

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ALDRICH & COMPANY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

315 WEST MAIN
COUNCIL GROVE, KS 66846

620-767-6653
1-800-361-6545
FAX 620-767-8149

Independent Auditor's Report

Mayor and City Council
City of Melvern, Kansas

We were engaged to audit the accompanying statutory basis financial statements of the City of Melvern, Kansas, as of and for the year ended December 31, 2011, as listed in the table of contents. These financial statements are the responsibility of the City's management.

The city did not have adequate information supporting receipts and information regarding utility system adjustments was not maintained. The city's records do not permit the application of other auditing procedures to the receipts and adjustments.

Since the City did not maintain adequate records regarding receipts and utility adjustments, and we were unable to apply other auditing procedures to satisfy ourselves about receipts, as discussed in the preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the financial statements referred to in the first paragraph taken as a whole.

Aldrich & Company, LLC

Aldrich and Company LLC
Certified Public Accountants

October 9, 2012

City of Melvern
Osage County, Kansas

Statement 1

Summary of Cash Receipts, Expenditures and Unencumbered Cash
For the Year Ended December 31, 2011

Fund	Beginning Unencumbered Cash Balance	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
General Fund	\$ 85,931	\$ 125,611	\$ 166,883	\$ 44,659	\$ 11,827	\$ 56,486
Special Revenue Funds						
Special Highway	19,436	10,307	10,096	19,647	202	19,849
Employee Benefit	2,166	226	2,392	0	0	0
Special Parks & Recreation	15,428	1,621	11,653	5,396	6,425	11,821
Equipment Reserve	2,572	0	0	2,572	0	2,572
Capital Improvement Reserve	32,339	0	0	32,339	0	32,339
Debt Service Funds						
Bond & Interest	6,389	64,001	67,753	2,637	0	2,637
Enterprise Funds						
Water Utility	54,080	115,443	119,831	49,692	10,673	60,365
Sewer Utility	14,859	35,319	33,525	16,653	2,282	18,935
Solid Waste	9,844	32,243	31,440	10,647	2,491	13,138
Total Reporting Entity	<u>\$ 243,044</u>	<u>\$ 384,771</u>	<u>\$ 443,573</u>	<u>\$ 184,242</u>	<u>\$ 33,900</u>	<u>\$ 218,142</u>

Composition of Cash:

Checking	\$ 5,780
Money Market	215,416
Petty cash	100
Total Cash	221,296
Agency Funds - statement 4	(3,154)
Total Reporting Entity (Excluding Agency Funds)	<u>\$ 218,142</u>

The accompanying notes are an integral part of this statement.

City of Melvern
Osage County, Kansas

Statement 2

Summary of Expenditures – Actual and Budget
(Budgeted Funds Only)
For the Year Ended December 31, 2011

FUNDS	Certified Budget	Adjustment for Qualifying Budget Credits	Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance Favorable (Unfavorable)
General Fund	\$ 146,050	\$ 21,812	\$ 167,862	\$ 166,883	\$ 979
Special Revenue Funds					
Special Highway	25,340		25,340	10,096	15,244
Employee Benefit	2,416		2,416	2,392	24
Special Parks & Recreation	12,970	0	12,970	11,653	1,317
Debt Service Funds					
Bond & Interest	75,252		75,252	67,753	7,499
Enterprise Funds					
Water Utility	118,100	0	118,100	119,831	(1,731)
Sewer Utility	38,233		38,233	33,525	4,708
Solid Waste	34,000		34,000	31,440	2,560

The accompanying notes are an integral part of this statement.

City of Melvern
Osage County, Kansas

Statement 3-1

Statement of Cash Receipts and Expenditures – Actual and Budget
For the Year Ended December 31, 2011

GENERAL FUND

	Current Year		Variance
	Actual	Budget	Favorable (Unfavorable)
Cash Receipts			
Taxes	\$ 35,629	\$ 37,209	\$ (1,580)
State of Kansas	21,566	0	21,566
Sales & Use Tax	19,426	20,000	(574)
Liquor tax	1,615	2,742	(1,127)
Franchise fees	35,721	31,000	4,721
Licenses and permits	474	500	(26)
Use of money and property	786	1,000	(214)
Fines and forfeitures	7,516	1,500	6,016
Miscellaneous receipts	2,878	100	2,778
Total Cash Receipts	125,611	94,051	31,560
Expenditures			
General government			
Personal services	37,890	31,000	(6,890)
Contractual	18,568	22,500	3,932
Commodities	10,586	16,000	5,414
Capital outlay	203	1,000	797
Total General government	67,247	70,500	3,253
Police			
Personal services	22,673	15,000	(7,673)
Contractual	5,414	5,000	(414)
Commodities	4,549	3,400	(1,149)
Capital outlay	3,767	0	(3,767)
Total Police	36,403	23,400	(13,003)
Parks and recreation			
Personal services	0	0	0
Contractual	1,235	1,500	265
Commodities	0	350	350
Total parks and recreation	\$ 1,235	\$ 1,850	\$ 615

The accompanying notes are an integral part of this statement.

City of Melvern
Osage County, Kansas

Statement 3-1

Statement of Cash Receipts and Expenditures – Actual and Budget
For the Year Ended December 31, 2011

GENERAL FUND

	Current Year		Variance Favorable (Unfavorable)
	Actual	Budget	
Expenditures (cont)			
Streets			
Personal services	\$ 1,769	\$ 9,000	\$ 7,231
Contractual services	939	2,300	1,361
Commodities	1,975	25,000	23,025
Capital Outlay	19,709	0	(19,709)
Street Lighting	15,794	14,000	(1,794)
Total Streets	<u>40,186</u>	<u>50,300</u>	<u>10,114</u>
Pride			
Pride project	21,812	0	(21,812)
Adjustment for qualifying budget credits	<u>0</u>	<u>21,812</u>	<u>21,812</u>
Total Pride	<u>21,812</u>	<u>21,812</u>	<u>0</u>
Total Expenditures	<u>166,883</u>	<u>167,862</u>	<u>979</u>
Receipts Over (Under) Expenditures	(41,272)	<u>\$ (73,811)</u>	<u>\$ 32,539</u>
Unencumbered Cash, January 1	<u>85,931</u>		
Unencumbered Cash, December 31	<u>\$ 44,659</u>		

The accompanying notes are an integral part of this statement.

City of Melvern
Osage County, Kansas

Statement 3-2

Statement of Cash Receipts and Expenditures – Actual and Budget
For the Year Ended December 31, 2011

SPECIAL HIGHWAY FUND

	Current Year		Variance
	Actual	Budget	Favorable (Unfavorable)
Cash Receipts			
State of Kansas - gas tax	\$ 10,307	\$ 11,220	\$ (913)
Reimbursed expense	<u>0</u>	<u>0</u>	<u>0</u>
Total cash receipts	10,307	11,220	(913)
Expenditures			
Street maintenance & repair	7,309	22,553	15,244
Debt service	<u>2,787</u>	<u>2,787</u>	<u>0</u>
Total expenditures	<u>10,096</u>	<u>25,340</u>	<u>15,244</u>
Receipts Over (Under) Expenditures	211	<u><u>\$ (14,120)</u></u>	<u><u>\$ 14,331</u></u>
Unencumbered Cash, January 1	<u>19,436</u>		
Unencumbered Cash, December 31	<u><u>\$ 19,647</u></u>		

The accompanying notes are an integral part of this statement.

City of Melvern
Osage County, Kansas

Statement 3-3

Statement of Cash Receipts and Expenditures – Actual and Budget
For the Year Ended December 31, 2011

EMPLOYEE BENEFIT

	Current Year		Variance Favorable (Unfavorable)
	Actual	Budget	
Cash Receipts			
Taxes	\$ 226	\$ 500	\$ (274)
Total cash receipts	226	500	(274)
Expenditures			
Employee benefits paid	2,392	2,416	24
Total expenditures	2,392	2,416	24
Receipts Over (Under) Expenditures	(2,166)	\$ (1,916)	\$ (250)
Unencumbered Cash, January 1	2,166		
Unencumbered Cash, December 31	\$ 0		

The accompanying notes are an integral part of this statement.

City of Melvern
Osage County, Kansas

Statement 3-4

Statement of Cash Receipts and Expenditures – Actual and Budget
For the Year Ended December 31, 2011

SPECIAL PARKS & RECREATION

	Current Year		Variance
	Actual	Budget	Favorable (Unfavorable)
Cash Receipts			
Liquor tax	\$ 1,614	\$ 2,742	\$ (1,128)
Grants	0	0	0
Interest	7	0	7
Total Cash Receipts	1,621	2,742	(1,121)
Expenditures			
Parks & recreation	11,653	12,970	1,317
Adjustment for budget credits	0	0	0
Total Expenditures	11,653	12,970	1,317
Receipts Over (Under) Expenditures	(10,032)	<u>\$ (10,228)</u>	<u>\$ 196</u>
Unencumbered Cash, January 1	<u>15,428</u>		
Unencumbered Cash, December 31	<u>\$ 5,396</u>		

The accompanying notes are an integral part of this statement.

City of Melvern
Osage County, Kansas

Statement 3-5

Statement of Cash Receipts and Expenditures – Actual
For the Year Ended December 31, 2011

EQUIPMENT RESERVE

	Prior Year Actual	Current Year Actual
Cash Receipts		
Transfers from other funds	\$ 0	\$ 0
Total Cash Receipts	0	0
Expenditures		
Equipment	0	0
Total Expenditures	0	0
Receipts Over (Under) Expenditures	0	0
Unencumbered Cash, January 1	2,572	2,572
Unencumbered Cash, December 31	\$ 2,572	\$ 2,572

The accompanying notes are an integral part of this statement.

City of Melvern
Osage County, Kansas

Statement 3-6

Statement of Cash Receipts and Expenditures – Actual
For the Year Ended December 31, 2011

CAPITAL IMPROVEMENT RESERVE

	Prior Year Actual	Current Year Actual
Cash Receipts		
Other receipt	\$ 0	\$ 0
Total Cash Receipts	0	0
Expenditures		
Capital outlay	0	0
Total Expenditures	0	0
Receipts Over (Under) Expenditures	0	0
Unencumbered Cash, January 1	32,339	32,339
Unencumbered Cash, December 31	\$ 32,339	\$ 32,339

The accompanying notes are an integral part of this statement.

City of Melvern
Osage County, Kansas

Statement 3-7

Statement of Cash Receipts and Expenditures – Actual and Budget
For the Year Ended December 31, 2011

BOND & INTEREST

	Current Year		Variance
	Actual	Budget	Favorable (Unfavorable)
Cash Receipts			
Taxes	\$ 64,001	\$ 67,531	\$ (3,530)
Transfers in	<u>0</u>	<u>0</u>	<u>0</u>
Total Cash Receipts	64,001	67,531	(3,530)
Expenditures			
Debt service	67,753	67,752	(1)
Cash basis reserve	<u>0</u>	<u>7,500</u>	<u>7,500</u>
Total Expenditures	<u>67,753</u>	<u>75,252</u>	<u>7,499</u>
Receipts Over (Under) Expenditures	(3,752)	<u><u>\$ (7,721)</u></u>	<u><u>\$ 3,969</u></u>
Unencumbered Cash, January 1	<u>6,389</u>		
Unencumbered Cash, December 31	<u><u>\$ 2,637</u></u>		

The accompanying notes are an integral part of this statement.

City of Melvern
Osage County, Kansas

Statement 3-8

Statement of Cash Receipts and Expenditures – Actual and Budget
For the Year Ended December 31, 2011

WATER UTILITY FUND

	Current Year		Variance Favorable (Unfavorable)
	Actual	Budget	
Cash Receipts			
Charges for services	\$ 114,537	\$ 106,500	\$ 8,037
Other receipts	906	2,200	(1,294)
Total cash receipts	115,443	108,700	6,743
Expenditures			
Personal services	41,174	34,000	(7,174)
Contractual services	15,858	19,200	3,342
Commodities	9,982	13,500	3,518
Water purchased	50,021	47,000	(3,021)
Deposits refunded	9	1,600	1,591
Debt repayment	2,787	2,800	13
Adjustment for budget credits	0	0	0
Total expenditures	119,831	118,100	(1,731)
Receipts Over (Under) Expenditures	(4,388)	\$ (9,400)	\$ 5,012
Unencumbered Cash, January 1	54,080		
Unencumbered Cash, December 31	\$ 49,692		

The accompanying notes are an integral part of this statement.

City of Melvern
Osage County, Kansas

Statement 3-9

Statement of Cash Receipts and Expenditures – Actual and Budget
For the Year Ended December 31, 2011

SEWER UTILITY FUND

	Current Year		Variance
	Actual	Budget	Favorable (Unfavorable)
Cash Receipts			
Charges for services	\$ 35,319	\$ 35,000	\$ 319
Connecting / cleaning fees	<u>0</u>	<u>0</u>	<u>0</u>
Total cash receipts	35,319	35,000	319
Expenditures			
Personal services	7,910	12,000	4,090
Contractual services	6,469	7,000	531
Commodities	6,913	7,000	87
Debt service	<u>12,233</u>	<u>12,233</u>	<u>0</u>
Total expenditures	<u>33,525</u>	<u>38,233</u>	<u>4,708</u>
Receipts Over (Under) Expenditures	1,794	<u><u>\$ (3,233)</u></u>	<u><u>\$ 5,027</u></u>
Unencumbered Cash, January 1	<u>14,859</u>		
Unencumbered Cash, December 31	<u><u>\$ 16,653</u></u>		

The accompanying notes are an integral part of this statement.

City of Melvern
Osage County, Kansas

Statement 3-10

Statement of Cash Receipts and Expenditures – Actual and Budget
For the Year Ended December 31, 2011

SOLID WASTE

	Current Year		Variance
	Actual	Budget	Favorable (Unfavorable)
Cash Receipts			
Charges for services	\$ 32,243	\$ 35,000	\$ (2,757)
Total cash receipts	32,243	35,000	(2,757)
Expenditures			
Contractual services	31,114	33,500	2,386
Commodities	326	500	174
Transfer out	<u>0</u>	<u>0</u>	<u>0</u>
Total expenditures	<u>31,440</u>	<u>34,000</u>	<u>2,560</u>
Receipts Over (Under) Expenditures	803	<u>\$ 1,000</u>	<u>\$ (197)</u>
Unencumbered Cash, January 1	<u>9,844</u>		
Unencumbered Cash, December 31	<u>\$ 10,647</u>		

The accompanying notes are an integral part of this statement.

City of Melvern
Osage County, Kansas

Statement 4

Summary of Cash Receipts and Cash Disbursements
For the Year Ended December 31, 2011

AGENCY FUNDS

		Beginning	Cash	Cash	Ending
		Cash Balance	Receipts	Expenditures	Cash Balance
Payroll tax clearing		\$ 2,854	\$ 20,380	\$ 20,080	\$ 3,154
Total		<u>\$ 2,854</u>	<u>\$ 20,380</u>	<u>\$ 20,080</u>	<u>\$ 3,154</u>

The accompanying notes are an integral part of this statement.

City of Melvern
Osage County, Kansas

Notes to the Financial Statements
December 31, 2011

Note 1 – Summary of Significant Accounting Policies

The City has established a uniform system of accounting maintained to reflect compliance with the applicable laws of the State of Kansas. The more significant of the city's accounting policies are described below.

1. Reporting Entity

The City of Melvern, Kansas was organized in 1886 and operates as a third class city in accordance with the laws of the State of Kansas. The City has a population of approximately 500 and is governed by an elected mayor and a five-member council. This report includes all services provided by the City to residents and businesses within its boundaries. Services provided include police protection, parks and recreation, public works and general administrative services. In addition, the City owns and operates two enterprise activities, a water system and a local sewer system. The City also contracts for solid waste collection.

The City is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate. These financial statements present the City of Melvern (the primary government). The City of Melvern has no component units that are includable in these financial statements. Component units are determined based on the significance of the operational and/or financial relationships with the City.

2. Basis of Presentation

These financial statements are presented on the statutory basis of accounting, which demonstrates compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund.

Cash disbursements are recognized when the cash balance of a fund is decreased. For an interfund transaction a cash disbursement is recorded in the fund from which the cash is transferred. Expenditures include disbursements, accounts payable and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract.

3. Departure from Generally Accepted Accounting Principles

The municipality has adopted a resolution, in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the statutory basis of accounting. This basis of accounting results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expense, liabilities such as deferred revenue and matured principal and interest payable and reservations of the fund balance are not presented. Under accounting principles generally accepted in the United States of America, encumbrances are only recognized as reservation of fund balances; encumbrances outstanding at year-end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with accounting principles generally accepted in the United States of America. Capital assets that account for the land, buildings and equipment owned by the municipality are not presented in the financial statements. Also, long-term debt such as general obligation bonds, revenue bonds, capital leases, temporary notes, and compensated absences are not presented in the financial statements.

City of Melvern
Osage County, Kansas

Notes to the Financial Statements
December 31, 2011

Note 1 – Summary of Significant Accounting Policies (Cont)

4. Fund Accounting

The accounts of the city are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for separately. Funds are classified into three categories: governmental, proprietary, and fiduciary. Within each of these three categories there are one or more fund types. The City uses the following fund types:

Governmental Fund Types

General Fund - The general fund is the operating fund of the city and accounts for all unrestricted resources except those required to be accounted for in another fund.

Special Revenue Funds – Special revenue funds are used to account for proceeds of specific revenue sources (other than special assessments or major capital projects) that are restricted by law or administrative action to expenditure for specified purposes.

Debt Service Fund – The debt service fund accounts for the accumulation of resources for, and the payment of principal and interest on general obligation debt and the financing of special assessments which are general obligations of the city.

Proprietary Fund Types

Enterprise Funds – Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis is financed or recovered primarily through user charges or where periodic determination of revenue earned, expenses incurred, and/or net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Fiduciary Fund Types

Trust and Agency Funds – Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, other funds, and/or other governmental units. These include Expendable Trust Funds, Non-expendable Trust Funds, and Agency Funds. Agency funds are custodial in nature (assets equal liabilities).

5. Ad Valorem Tax Revenues and Property Taxes Receivable

The determination of assessed valuations and the collection of property taxes for all political subdivisions in the State of Kansas is the responsibility of the county. The County Appraiser annually determines assessed valuations based on real estate transactions recorded by the Register of Deeds and personal property transactions reported by taxpayers. The County Clerk spreads the annual assessment on the tax rolls. The County Treasurer is the tax collection agent for all taxing entities within the county.

In accordance with state statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year basis and become a lien on the property on November 1 of each year. One-half of the property taxes are due December 20th and the second half is due the following May 10th. Any taxes unpaid at the due dates are considered delinquent.

Undistributed taxes from the prior year levy are recognized as income in the current year. It is not practicable to apportion delinquent taxes held by the county treasurer at year end and, further, the amounts are not material in relationship to the financial statements taken as a whole.

City of Melvern
Osage County, Kansas

Notes to the Financial Statements
December 31, 2011

Note 2 – Deposits

Cash balances from all funds are combined and invested, to the extent possible in interest bearing accounts and certificates of deposit. All investments are stated at cost. Earnings from these investments, unless specifically designated, are allocated to the general fund. All investments are held in the City's name.

At year-end the carrying amount of the city's deposits, excluding petty cash funds, was \$221,196. Actual bank statement balances were \$222,695. The difference between the carrying amount and the bank balance is composed of checks that have not cleared and deposits in transit. The entire bank balance was covered by FDIC insurance.

Kansas statutes authorize the city to invest idle funds in time deposits, open accounts, U.S. government securities, repurchase agreements, temporary notes, no-fund warrants, the State Municipal Investment Pool and certificates of deposit with maturities of not more than two years. The City or its agent in the City's name must hold all investments. The City has no investment policy that would further limit its investment choices.

K.S.A. 9-1401 establishes the depositories which may be used by the city. The statute requires banks eligible to hold the City's funds have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The city has no other policies that would further limit interest rate risk.

State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt. A bank within the State of Kansas, the Federal Reserve Bank of Kansas City or the Federal Home Loan Bank of Topeka may hold the collateral, which is valued at market value. All deposits were legally secured at December 31, 2011.

Note 3 - Compensated Absences

The City's policies regarding vacation and sick pay allow employees to accumulate a maximum of fifteen days of vacation pay based on years of service and unlimited sick pay. A maximum of five days of vacation pay may be carried to the subsequent year. Policies prohibit payment of vacation time in lieu of time off. All accumulated vacation pay is payable upon employment termination. Unused sick pay is forfeited upon employment termination. The costs of accumulated compensated absences are not recorded as the benefits are accumulated, but rather at the time such benefits are paid. Benefits are paid from the funds that correspond to the employees' duties.

Note 4 – Budgets and Budgetary Accounting

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held, and the governing body may amend the budget at that time. No such amendments were made for this year.

City of Melvern
Osage County, Kansas

Notes to the Financial Statements
December 31, 2011

Note 4 – Budgets and Budgetary Accounting (Cont)

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are to be prepared using the statutory basis of accounting, in which revenues are recognized when cash is received and expenditures include disbursements, accounts payable, and encumbrances, with disbursements being adjusted for prior year's accounts payables and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for capital projects funds, fiduciary funds, permanent funds and the following special revenue funds: Equipment Reserve and Capital Improvements Funds.

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

Adjustments Qualifying for Budget Credits

Budget credits must be authorized by Kansas Statutes. Examples include expenditures of federal grant moneys, gifts, and donations, and receipts authorized by law to be spent as if they were reimbursed expenses. The adjustment for budget credits, when applicable, is presented in the financial statements which increase the legal budget amounts for the respective funds.

Note 5 – Refunding of General Obligation Bonds

In 2003, the City defeased the 1996 General Obligation Refunding Bonds, by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the 1996 bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. The outstanding balance of the defeased 1996 bonds was \$135,000 at December 31, 2011.

Note 6 – Pension Plan

The City of Melvern participates in the Kansas Public Employees Retirement System (KPERs), a cost-sharing multiple-employer defined benefit pension plan as provided by KSA 74-4901, *et seq.* KPERs provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERs issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERs (611 S. Kansas Avenue, Topeka, KS 66603-3803) or by calling 1-888-275-5737.

KSA 74-4919 establishes the KPERs member-employee contribution at 4% or 6% of covered salary depending on eligibility date. The employer collects and remits member-employee contributions according to the provisions of section 414(h) of the Internal Revenue Code. State law provides that the employer contribution rate to be determined annually based on the results of an annual actuarial valuation. KPERs is funded on an actuarial reserve bases. State law sets a limitation on annual increases in the contribution rates for KPERs employers. The employer rate for 2011, established by statute, was 7.74% with a 1% reduction for April through June. The City of Melvern's employer contributions to KPERs for the year ended December 31, 2011, 2010, and 2009, were \$7,404, \$5,738, and \$3,645, respectively, equal to the required contributions.

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Note 7 – Commitments

The City is a member of the Public Wholesale Water Supply District. Prior to August 2004, water was purchased to supplement water produced by the City's water treatment plant. In August 2004, the City discontinued producing water and currently purchases all water from the water supply district. On February 23, 2009, the City committed to buy a minimum of 800,000 gallons of water per month.

Note 8 – Long-Term Debt

General Obligation Bonds

General obligation bonds, payable from future property tax revenues and special assessments, are serial bonds to be retired through calendar year 2020. At December 31, 2011, the bonds consist of:

General obligation refunding bonds, Series 2003, due in annual installments ranging from \$20,000 to \$30,000, issued July 16, 2003, interest at 1.5% to 4.2%.

General obligation bonds, Series 2005, due in annual installments ranging from \$10,000 to \$35,000, issued April 1, 2005, interest at 2.8% to 5.0%.

KDHE Loan

The loan payable to the Kansas Department of Health and Environment, for wastewater treatment improvements, approved amount \$155,000, advanced total \$150,575 is payable from revenues of the sewer utility. The loan, which bears interest at 3.9%, is to be retired in semi-annual installments of \$5,187 through calendar year 2023. No lien or other security interest is granted to the Kansas Department of Health and Environment, however should sewer utility revenues be insufficient to pay costs of operation and maintenance of the system and pay the principal, interest and other amounts due under the loan agreement, the City shall levy ad valorem taxes sufficient to produce the required amounts.

Lease Purchases

In 2007, the City entered into a lease purchase agreement for a backhoe. The lease, which is contingent on the annual appropriation of funds, bears interest at 5.99%, and is to be retired in annual payments of \$7,433 through calendar year 2011. Payments are allocated to the special highway, water and sewer funds.

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Notes to the Financial Statements
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Note 8 – Long-Term Debt (Cont)

A summary of long term debt follows:

	Original Amount	Beginning Balance	Additions	Payments	Ending Balance	Interest Paid
GO Bonds, Series 2003	\$ 295,000	\$ 135,000	\$ 0	\$ 25,000	\$ 110,000	\$ 5,265
GO Bonds, Series 2005	395,000	300,000	0	25,000	275,000	12,483
KDHE Loan	150,575	104,993	0	6,873	98,120	3,502
Backhoe lease	33,190	7,012	0	7,012	-	421
	<u>\$ 873,765</u>	<u>\$ 547,005</u>	<u>\$ 0</u>	<u>\$ 63,885</u>	<u>\$ 483,120</u>	<u>\$ 21,671</u>

Maturities of long term debt are as follows:

	2012	2013	2014	2015	2016	2017- 2021	2022- 2023	Total
Principal								
GO Bonds, Series 2003	\$ 25,000	\$ 25,000	\$ 30,000	\$ 30,000	\$ 0	\$ 0	\$ 0	\$ 110,000
GO Bonds, Series 2005	25,000	25,000	30,000	30,000	30,000	135,000	0	275,000
KDHE Loan	7,108	7,351	7,602	7,862	8,130	45,019	15,048	98,120
Backhoe lease	0	0	0	0	0	0	0	0
Total Principal	<u>57,108</u>	<u>57,351</u>	<u>67,602</u>	<u>67,862</u>	<u>38,130</u>	<u>180,019</u>	<u>15,048</u>	<u>483,120</u>
Interest								
GO Bonds, Series 2003	4,415	3,490	2,490	1,260	0			11,655
GO Bonds, Series 2005	11,357	10,295	9,180	7,935	6,668	12,465	0	57,900
KDHE Loan	3,266	3,024	2,772	2,512	2,244	6,853	513	21,184
Backhoe lease	0	0	0	0	0	0	0	0
Total Interest	<u>19,038</u>	<u>16,809</u>	<u>14,442</u>	<u>11,707</u>	<u>8,912</u>	<u>19,318</u>	<u>513</u>	<u>90,739</u>
Total Principal & Interest	<u>\$ 76,146</u>	<u>\$ 74,160</u>	<u>\$ 82,044</u>	<u>\$ 79,569</u>	<u>\$ 47,042</u>	<u>\$ 199,337</u>	<u>\$ 15,561</u>	<u>\$ 573,859</u>

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Notes to the Financial Statements
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Note 9 – Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. Insurance claims have not exceeded commercial insurance coverage for the past three years. There were no significant reductions in insurance coverage from coverage in prior years.

The City participates in the Kansas Municipal Insurance Trust (KMIT) to provide workers' compensation coverage. The City, along with other participating entities, contributes annual amounts as determined by KMIT management and underwriters. As claims arise they are submitted to and paid by KMIT. During 2011, the City contributed \$2,286 for this insurance coverage. There were no significant reductions in insurance coverage from the prior year. Any shortage in assets to pay outstanding claims would be assessed pro rata among participating entities.

Note 10 – Compliance with Kansas Statutes

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the municipality.

K.S.A.79-2935 requires that expenditures be controlled so that no indebtedness is created in excess of the budgeted limits. The city exceeded its budget in the water fund by \$1,731.

Management is not aware of any other statutory violations for the period covered by this audit.